

**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NICHOLAS COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Nicholas County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

There were no excess fees earned during the year ended December 31, 2006. The Sheriff has a current deficit of \$144. Revenues increased by \$11,428 from the prior year and expenditures increased by \$18,979.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Maintain Time Records For All Employees

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Tincher, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Nicholas County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Larry Tinch, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Maintain Time Records For All Employees

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Nicholas County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 16, 2007

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services:

Cabinet For Human Resources	\$	170
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Circuit Court Clerk:

Sheriff Security Service	\$ 10,060	
Fines and Fees Collected	3,564	
State Fee Claims	3,168	16,792

Fiscal Court		9,500
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County Clerk - Delinquent Taxes		463
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Commission On Taxes Collected		57,975
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Other Fees on Tax Collections:

Sheriff's Penalty On Taxes	11,699	
Advertising Fees	415	12,114

Fees Collected For Services:

Auto Inspections	710	
Accident and Police Reports	105	
Serving Papers	7,500	
Carrying Concealed Deadly Weapon Permits	1,403	9,718

Other:

Board of Education	11,401	
Miscellaneous	698	12,099

Interest Earned		461
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Borrowed Money:

State Advancement		22,000
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Total Revenues		141,292
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The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
 LEONARD T. GARRETT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	32,410	
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Contracted Services-

Advertising		206	
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Vehicle Maintenance and Repairs		1,341	
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Materials and Supplies-

Office Materials and Supplies		592	
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Uniforms		78	
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Auto Expense-

Gasoline		9,737	
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Maintenance and Repairs		2,540	
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Other Charges-

Conventions and Travel		745	
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Dues		325	
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Postage		217	
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Fiscal Court - House Bill 577		3,378	
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Bond		223	
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Carrying Concealed Deadly Weapon Permits		710	
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Communications		2,168	
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Miscellaneous		378	\$ 55,048
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Debt Service:

State Advancement		22,000	
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Total Expenditures		77,048	
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Net Revenues		64,244	
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Less: Statutory Maximum		64,388	
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Fee Account Deficit for Calendar Year 2006		\$ (144)	
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The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The Sheriff's office was committed to a lease agreement with IOS Capital for a copier and fax machine, which was completed during 2005. The Sheriff has opted to continue the lease on a month-to-month basis under the same payment terms as the original lease. The Sheriff is under no obligation to continue making payments and can terminate this lease continuation at any time.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 5. Subsequent Event

On March 16, 2007, the Sheriff reimbursed the fee account \$144 from personal funds, to eliminate the deficit in the 2006 fee account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Tincher, Nicholas County Judge/Executive
The Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nicholas County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated March 16, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nicholas County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nicholas County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nicholas County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nicholas County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff's Office Should Maintain Timesheets For All Employees

The Sheriff's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Nicholas County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 16, 2007

COMMENTS AND RECOMMENDATIONS

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

All employees of the Sheriff's office collect receipts. The bookkeeper prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The bookkeeper prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The bookkeeper also prepares checks for all disbursements including payroll and posts to the disbursements ledger. The Sheriff signs checks. The Sheriff does not require dual signatures on checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. The Sheriff should implement and document that he is performing the following steps to strengthen internal controls:

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences noted should be reconciled. The Sheriff should document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should review the quarterly financial report and compare amounts reported to the receipts and disbursements ledger.
- The Sheriff should periodically complete the bank reconciliation.
- Dual signatures should be required on all checks, with the Sheriff being one of the required check signers.

Sheriff's Response: We will try to do. I will initial when and where appropriate.

STATE LAWS AND REGULATIONS:

The Sheriff's Office Should Maintain Time Records For All Employees

Timesheets are centrally maintained by the Sheriff's office; however, a timesheet was not maintained for the School Resource Officer. KRS 337.320 says every employer shall keep record of the hours worked each day and each week by each employee. Timesheets should be kept for payroll verification and as a record of leave time earned and used. Timesheets are also necessary to document eligibility for employee benefits such as retirement and overtime. The employee and the appropriate supervisor should review and sign all timesheets. We recommend the Sheriff's office maintain time records properly for all employees.

Sheriff's Response: Will work on correcting this.

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

PRIOR YEAR:

The Sheriff Should Make Daily Deposits - Corrected.

The Sheriff's Office Lacks Adequate Segregation Of Duties - Repeated

The Sheriff Is Due \$4,380 In Salary For Calendar Year 2004 And \$4,275 For Calendar Year 2003 - This matter is pending but not relevant to the current year.

The Sheriff Owes The Fiscal Court \$1,799 In House Bill 577 Fees Per The 2004 Audit - During 2006, \$1,331 of the balance was paid to the fiscal court. The Sheriff still owes the fiscal court \$468.

